

Senate Budget & Fiscal Review

Senator Steve Peace, Chair



Subcommittee No. 3
on
Health, Human Services, Labor, and Veterans Affairs

Senator Wesley Chesbro, Chair
Senator Ray Haynes
Senator Deborah Ortiz

Monday, March 18, 2002
UPON ADJOURNMENT OF SESSION

AGENDA - Part 1

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0553 Office of the Inspector General for Veterans Affairs

Purpose and Description. AB 92 (Floyd, Chapter 894/99) established the office. The office reviews the operations and financial condition of the state and local veterans' programs, including the operations and financial condition of the veteran's homes and the veterans' loan programs.

Prior to establishment of the Inspector General's office, the Department of Veterans Affairs (DVA) maintained a five-person office of the internal auditor. The inspector general was to have replaced the internal audit function at DVA. DVA maintains two full-time internal audit positions.

Originally funded with \$180,000 and two positions in the implementing legislation, the Governor proposes \$531,000 and four positions in the budget year. This is \$24,000 less than current year expenditures.

Staffing Schedule Accounts for 35 Percent of Assumed Workload. Pursuant to a supplemental report requirement, the office submitted a staffing schedule. The report accounts for 35 percent of the office's staff hours. It does not account for other anticipated workload, such as staff time for handling complaints and conducting investigations. Based on its review of the report, the Legislative Analyst's Office said, "It is difficult to assess from the information contained in the [Inspector General's] report whether the staffing provided to the office is adequate to meet its responsibilities. "

Staff recommend that the budget be placed on consent, as no budget issues have been raised.

8955-8966 DEPARTMENT OF VETERANS AFFAIRS and VETERANS' HOMES OF CALIFORNIA

Purpose and Description. The Department of Veterans Affairs (DVA) provides services to qualified veterans and eligible members of the National Guard. Principally, it

- Assists eligible veterans and their dependents in obtaining federal and state benefits.
- Makes below-market loans to qualified veterans for homes and farms. The loans made through the California Veterans Farm and Home Purchase Program use the proceeds from the sale of general obligation and revenue bonds.
- Operates veterans' homes in Yountville (Napa County), Barstow (San Bernardino County) and Chula Vista (San Diego County).

Expenditures Proposed in the Governor's Budget. The budget proposes total expenditures of \$351 million, a slight increase from the current year. The budget anticipates a \$5 million reduction in the cost of the veterans homes. Please see Table 1 for details.

Table 1
Summary of Expenditures, by Program
Dollars in Thousands

	<u>2001-02</u>	<u>2002-03</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Farm & Home Loans to Veterans	\$229,545	\$231,905	\$2,360	1.0%
Veterans Claims & Rights	5,321	5,284	-37	-0.7%
Care of Sick & Disabled Veterans	106,018	111,291	5,273	5.0%
Farm & Home Loans to National Guard Members	82	78	-4	-4.9%
Veterans' Memorials Fund	26	23	-3	-11.5%
Northern CA Vet's Cemetery	25	0	25	-100.0%
General Administration	<u>3,049</u>	<u>2,958</u>	<u>-91</u>	<u>-3.0%</u>
Totals	\$344,066	\$351,539	\$7,473	

Update on Reports

As a condition of approving the department's budget, the Legislature required it to file reports on its progress in various management areas, including certification of the Barstow home, cash, and consultant contracts. These reports were intended to assist the Legislature in monitoring conditions at the homes in particular.

Between July 1, 2001 and March 1, 2002, the department was to have provided 12 reports to the Legislature. Eight of these reports were filed. All were late by at least four weeks. Table 2 displays the report required and when the department forwarded it to the Legislature.

Table 2

Reports Due from the Department between July 1, 2001 and February 28, 2002

	<u>Due Date</u>	<u>Date Released</u>
Barstow Recertification Progress Report (1)	7/1/01	Not Released
Barstow Recertification Progress Report (2)	8/1/01	11/20/01
Cash Flow Report	8/31/01	1/27/02
Barstow Recertification Progress Report (3)	9/1/01	1/24/02
Barstow Recertification Progress Report (4)	10/1/01	1/24/02
Barstow Recertification Progress Report (5)	11/1/01	1/24/02
Evaluation of Country Villa Services Contract	12/1/01	2/25/02
Barstow Recertification Progress Report (6)	12/1/01	2/25/02
Reimbursement Contract Performance Report	12/15/01	Not Released
Updated Cash Flow Report (1)	12/31/01	1/27/02
Barstow Recertification Progress Report (7)	1/1/02	Not Released
Updated Cash Flow Report (2)	2/28/02	Not Released

ITEMS FOR DISCUSSION

Staff raise the following issues:

1. Personnel Levels Are Overbudgeted
2. Reimbursements Underestimated
3. Loan Update
4. Cash Flow Update
5. Cash Management Systems Need Improvement
6. Capital Projects

1. Personnel Levels Are Overbudgeted

As part of last year's May Revision, the department identified expenditures of \$800,000 associated with vacancies and other personnel expenditures which could be redirected to finance a one-time contract for improving the department's billing and collection systems. The department testified that the reduction would not affect services.

The subcommittee denied the contract and reduced the department's base budget by \$800,000. The budget conference committee restored the \$800,000 on a one-time basis to fund the contract.

The Governor's budget restores the \$800,000 to the department's permanent base.

Staff recommend that the department's General Fund expenditures be reduced by \$800,000. Because the department has foregone the personnel in the current year, it appears that the personnel are not essential to the department. The department provided no justification for restoring the funding.

2. Reimbursements Underestimated

The United States Department of Veterans Affairs (USDVA) provides a per diem reimbursement for each resident of the three homes. The federal government expects to provide a cost of living adjustment for the USDVA per diem in the budget year, thereby increasing reimbursements. The budget does not reflect this increase in per diem payments.

Recognizing the difficulty the department has faced collecting its Medicare and Medi-Cal reimbursements, the department has taken the following actions to improve reimbursements:

- In 2000, it contracted with Superior Consultants to reduce account receivable backlog and enhance the home's bill tracking system (known as the Meditech system), improve hospital business practices and to provide staff training. Superior Consultants improved operating efficiency of the system and helped the home collect approximately \$3 million in reimbursements.
- In 2001, it contracted with CERTUS Corporation to review inpatient and outpatient surgery accounts receivable for the period October 1999 through June 2001. According to the Legislative Analyst, CERTUS identified 429 billable accounts for a potential increase in reimbursements of about \$1.3 million. After reviewing the accounts assigned it, CERTUS now estimates that it can collect between \$350,000 and \$450,000.
- In 2001, it hired a financial manager, a former Medicare auditor, to help train clinical and Medi-Cal staff on procedures for billing, entering data and ensuring compliance with Medicare requirements.
- In January 2002, the department contracted for "a fiscal intermediary to capture reimbursement data and bill for inpatient services." The budget assumes this contract, which was to be in effect for a half year, will generate \$3 million in additional reimbursements between January 1, 2002 and June 30, 2002.

Staff recommend that the subcommittee:

- (a) Increase the budgeted level of USDVA reimbursements by the amount expected for all three homes and reduce the General Fund appropriation by an equivalent amount.
 - (b) Increase the budgeted reimbursement level for Medicare and Medi-Cal to reflected the improved collection rates associated with the contracts. The department indicated that the 2002 contract alone would generate \$3 million in additional collections on a half-year basis. It would not be unreasonable to assume that, after adopting the contractor's suggestions about improving collections, the department could sustain higher collection rates for at least \$4.5 million on an annualized basis. By increasing Medicare and Medi-Cal
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reimbursements by \$1.5 million, the subcommittee could reduce General Fund costs by an equivalent amount.

3. Loan Update

In recent years, the budget bill authorized the Controller to provide the homes with a short-term loan to accommodate delays in receiving reimbursements, primarily from Medi-Cal and Medicare. The General Fund loan, which could be extended through administrative action was authorized by this provisional language:

A loan from the General Fund, in an amount not to exceed the level of reimbursements appropriated in Schedule (2) of this item, shall be made available to the Veterans' Home of California by the Controller to meet cash needs resulting from the delay in receipt of federal funds or reimbursements for medical services provided. The loan is short term, and shall be repaid within six months. Interest charges shall be waived pursuant to subdivision (e) of Section 16314 of the Government Code.

When the homes cannot repay their short-term loan within a time frame established by the Controller, the department requests that the loan be "forgiven." When a loan is "forgiven," the budget effect is to increase General Fund expenditures. For example in the 2001 Budget Act, the Legislature forgave a \$2 million loan made to the Barstow Home in 1999. As a result, General Fund expenditures increased by \$2 million.

The Yountville home took out a loan of \$7.8 million and \$5.2 million in 1999-00 and 2000-01, respectively. It has repaid most of these loans, but has a total outstanding balance of \$5.3 million for these loans, as displayed in Table 3. These loans are associated with shortfalls in reimbursements for claims against Medi-Cal and Medicare. Given the time limits for making valid claims for these reimbursements, it is highly unlikely that home will be able to repay the General Fund with the reimbursement revenue attributable to 1999-00 or 2000-01.

Table 3
General Fund Loans to the Yountville Home

<u>Fiscal Year</u>	<u>Loan</u>	<u>Paid</u>	<u>Balance</u>
1999-00	\$ 7.8	\$ 5.8	\$ 2.0
2000-01	<u>5.2</u>	<u>1.9</u>	<u>3.3</u>
Totals	\$ 13.0	\$ 7.7	\$ 5.3

The home expects to take out a loan for the current and budget years as well.

Staff recommend that the subcommittee revise the budget bill language authorizing loans, making it subject to 30-day notification of the fiscal committees.

(a) The Director of Finance may authorize a loan from the General Fund, in an amount not to exceed the level of reimbursements appropriated in Schedule (2) of this item to the Veterans' Home of California, provided that the (1) The loan is to meet cash needs resulting from the delay in receipt of reimbursements for medical services provided, (2) The loan is short term, and shall be repaid within six months, (3) Interest charges may be waived pursuant to subdivision (e) of Section 16314 of the Government Code, and (4) The Director of Finance may not approve the loan unless the approval is made in writing and filed with the Chairperson of the Joint Legislative Budget Committee and the chairperson of the committee in each house that considers appropriations not later than 30 days prior to the effective date of the approval, or not sooner than whatever lesser time the chair person of the joint committee or his or her designee may determine.

(b) At the end of the six-month term of the loan, the department shall notify the Chairperson of the Joint Legislative Budget Committee whether the home has repaid the loan made pursuant to subdivision (4) of paragraph (a). If the department notifies the Legislature that the home cannot repay the loan within the six month loan period, it shall identify a payment schedule for full payment of the loan.

This language ensures that the Legislature is apprised of the home's fiscal condition before a loan is extended and if the home is unable to meet the repayment condition of the loan.

4. Cashflow Update

The department continues to face cash flow problems. The department estimates that it will face a cash short fall of at least \$1.7 million in April 2002. The cash deficit will grow to \$7 million in June. Part of the department's difficulties arise when it delays billing the federal government and private insurers. The department says it has a four month backlog in making claims. This backlog causes the lag in collections.

Staff recommend that the subcommittee adopt the following supplemental report language.

Proposed Supplemental Report Language

8955-001-0001 – Department of Veterans Affairs

1. Managing Cash Flow.

The department shall submit the following reports to the chairs of the budget committees of both houses.

- (1) On December 27, 2002, the department shall report on the cash flow needs of the department and veterans' homes. The report shall detail the expected expenditures and expected receipts of reimbursements and U.S. Department of Veterans Affairs per diem. The department shall notify the Legislature of the actions it will take to accommodate any estimated cash shortfalls, including any plans to reduce purchases. The department shall detail the balances and repayment schedule for General Fund loans.
- (2) On February 28, 2003, the department shall update the report provided pursuant to subparagraph (1). The department shall describe the causes and fiscal implications of the differences between the December and February cash flow analysis. The department shall notify the Legislature of the actions it will take to accommodate any estimated cash shortfalls, including any plans to reduce purchases.

The reports shall provide sufficient information to sustain a thorough analysis

2. Reducing Lags in Collections.

On or before December 15, 2002, the department shall report to the chairs of the fiscal committees on the lags associated with collecting reimbursements. In particular, the department shall detail:

- (1) The lags incurred between the rendering of services, making claims, and reimbursements received.
- (2) Actions the department has taken to reduce lags since July 1, 2001.
- (3) Actions the department intends to take in 2003 to reduce lags. The department shall identify the actions and the expected reduction in lags.

The report shall provide sufficient information to sustain a thorough analysis.

5. Internal Control System Update

Last year, the State Auditor reviewed the department's internal control system. In that review, the auditor determined that the department exhibits most of the warning signs for a poor internal control systems. The Auditor did not make recommendations to fix the control system.

The Inspector General for Veterans Affairs conducted a later review and also determined that the department has “several critical weaknesses in accounting practices with the provisions of laws, administrative rules, State Administrative Manual requirements and other guidelines...”

Of particular concern is the inspector’s identification of weaknesses in accounting controls. These weaknesses, according to the inspector,

put CDVA at risk for theft, loss from unauthorized use or misappropriation of assets. Specifically, certain cash processing functions are not adequately separated, blank check stock and receipts are not secured and overpayments are not adequately monitored.

For example, the inspector found that several salary advances had been made at Yountville and were outstanding beyond 60 days. The personnel office could “offer no explanation as to why the salary advances had not been resolved.”

Staff recommend that the Department of Finance conduct an audit of the department’s internal control system and make specific recommendations for improving the systems. Finance shall be reimbursed for its audit costs.

6. Capital Projects

The budget includes three projects at the Yountville home funded by \$743,000 of general obligation bonds, approved by the voters through Proposition 16. The proposition requires that the bond funds be matched with federal funds. The Legislative Analyst recommends that the Legislature adopt budget bill language requiring the federal funds be available before the bond funds can be spent. The department is preparing language and expects to present it at the hearing.
